

DEPARTMENT OF STATE REVENUE

AUDIT-GRAM NUMBER IR-027

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ISSUE: Cleaning Compounds Used in Manufacturing

Authority: IC 6-2.5-5-5.1(b); IC 6-2.5-5-3; 45 IAC 2.2-5-12; 45 IAC 2.2-5-8(d); *Guardian Automotive*, Ind. Tax Ct., 2004

IC 6-2.5-5-5.1 Exemption; acquisition for direct consumption in direct production...

(b) Transactions involving tangible personal property are exempt from the state gross retail tax if the person acquiring the property acquires it for direct consumption as a material to be consumed in the direct production of other tangible personal property in the person's business of manufacturing, processing, refining, repairing, mining, agriculture, horticulture, floriculture or arboriculture. This exemption includes transactions involving acquisitions of tangible personal property used in commercial printing.

As added by Acts 1981, P.L.63, SEC.6. Amended by P.L.23-1986, SEC.2; P.L.78-1989, SEC.5; P.L.192-2002(ss), SEC.51

I. General Statement

Cleaning compounds, integrated into a manufacturing process, which are not part of a regular maintenance program and would, if not used, have a negative impact on the product produced, are exempt from the Gross Retail Tax.

II. Production

To avail themselves of the exemption, taxpayers must be engaged in the production of a marketable good. Production requires a "substantial" change or transformation that "places tangible personal property in a form, composition, or character different from that in which it was acquired." [FN 1]

III. Essential and Integral

The item for which exemption is requested must be closely connected with the production of goods. It is not necessary that the item have a transformation effect on the good being produced. It is sufficient that the item has an integral part in the ongoing process of transformation. [FN 2] The item must play an essential part in ensuring the production of a marketable good.

[FN 1] 45 IAC 2.2-5-8(k)

[FN 2] *Guardian Automotive Trim, Inc.*, Indiana Tax Court, 2004